

The crucial role of adequate capital in starting a business should never be overlooked.



Chapter 5: Money

The crucial role of adequate capital in starting a business should never be overlooked. Inadequate capital is among the leading causes of business failures. Both the availability of capital and the form this financing takes will be, for many, a deciding factor in the development and growth of their businesses.

Financing can be in the form of debt capital or loans, or in the form of equity capital—an ownership interest in the business. For many newly established businesses, a combination of these two types of financing will be necessary.

Credit Policy

Credit is necessary in most situations and for most businesses. You must establish a credit policy and communicate it to your employees and your customers or clients. The basic elements of a credit policy program are:

- To whom credit will be extended
- Credit terms
- Problem detection
- Collection procedures

Loans

Whether you have a new or an existing business, the time may arise when there is a need for outside capital. This will be an excellent opportunity to utilize your business plan (Chapter 2) to seek these funds. Lenders will require detailed information on your business when considering a loan request. An established business with a good record of operations usually has better access to available sources of capital than a new firm. Some personal capital available for investment in a new business and the assignment of assets applicable to the operation is almost always essential to obtaining any type of outside assistance.

Loans are usually classified as follows:

- Short-term loans: Capital repaid within one year
- Intermediate loans: Capital repaid in one to five years
- Long-term loans: Capital repaid in more than five years

It is important to borrow funds over the same period of time as the loan proceeds will be used—short-term for working capital versus intermediate or long-term for fixed asset acquisition.

The following sources may provide funds for small firms:

Personal Funds

Whenever potential creditors, partners, or stockholders are invited to invest in or lend financial assistance to a new firm, their question is, “How much does the owner have invested?” It is important that the prospective owner or owners have assets of their own to invest in the firm. The closer to 50 percent of the total capital needs that can be provided with personal funds, the greater will be their independence, their shares of net profit, and their access to debt capital.

Loans from Relatives and Friends

Many new owners are encouraged in their enterprise by parents, relatives, or friends who offer to supply private loans to the firm to help it get started. In lieu of personal funds, this is the second fastest, easiest, and cheapest source of funds with fewer legal problems and less paperwork. However, mixing family or social relationships with business dealings can be dangerous. Many unpleasant, costly situations might be averted if the terms and conditions of the loans are clearly specified, e.g., the extent of participation in management decisions by the investor (or relatives and friends). The best way to avoid future misunderstandings is to view these loans strictly as business transactions and to make sure that all terms and conditions are documented.

A lending institution may require that funds lent by relatives or investors be placed on standby, which has the effect of altering the time frame over which these private loans can be repaid. Generally, the execution of a formal standby agreement will mean the investors will not receive any payment of principal (and possibly interest) on their loan until the institution loan is completely paid off. This action is taken to reduce the business debt during the start-up years and is required due to the uncertainty of a new venture. If sufficient earnings are achieved and the institution loan is current, the lender may permit orderly payments to the relatives or friends.

Commercial Bank Loans

Commercial banks offer a variety of lending services and loan types through their installment, commercial, or mortgage lending departments. Additionally, each bank has its own internal lending policies and practices as to the type of financing they will extend. Therefore, it is recommended that a potential borrower get to know the banker and determine the specific requirements to obtain favorable financing. Since banks are competing for their borrowing clients, an applicant may find it worthwhile to discuss a proposal with more than one lender in order to obtain the most favorable arrangement. Most business financing comes from the bank's commercial lending department.

Commercial banks offer short-term loans to assist business with expanding working capital such as inventory purchase, carrying accounts receivable, and marketing. Banks also provide intermediate and long-term financing for fixed asset acquisition, including business real estate. The short-term assets of the business (accounts receivable and inventory), personal assets (trade stocks, bonds, cash value of life insurance, etc.), and personal guaranties are the usual forms of collateral for short-term loans. For longer term loans, commercial lenders generally require the fixed assets of the business plus additional permanent assets (if warranted) as security.

Commercial banks provide financing based on their experience with both the individual customer and the type of business (manufacturing, service, retail, wholesale) applying for the loan. Therefore, the preparation of the business plan and formal loan application is the key to eventual approval. This is particularly true for new customers and newly started businesses, since they historically have the least financial data or business collateral available. Additional preparatory efforts for lower dollar requests should also be made, since smaller loans have shown to be the riskiest of all. Applicants should always seek to understand the requirements for obtaining a loan and work with their commercial lender to present a clear and concise justification for these funds.

Credit from Suppliers

Credit from suppliers is the financial assistance extended from other firms with which the business has dealings, especially the suppliers of inventory. These suppliers will often grant 30, 60, 90, or more days to pay for whatever material is purchased from them. This has the effect of a loan, even though a loan, as such, has not been negotiated. It is important to note, however, that some suppliers may charge you interest after the first 30 days, and that interest rate may be higher than that charged by a commercial lender.

Credit Card Loans

Credit card loans are another source of funds. Depending upon the particular credit card and the amount of credit that you are permitted with that card, you may be able to get several thousand dollars with which you can purchase supplies or materials for your business. Be careful of the interest rate on these cards, as it might be extremely high.

Private Investors Networks

These not-for-profit corporations, also known as angel investors networks, link accredited investors and emerging growth companies for the purpose of improving access to capital through informal networks that already exist. For a processing fee, investment opportunities from entrepreneurs are circulated to member investors in the form of an executive summary, drawn from a complete business plan, to determine initial interest. In addition to access to capital, active investors can provide entrepreneurs with development, operations, and management expertise. See Private Investors Networks in the Appendix.

Venture Capital

Venture capital or equity capital financing is not an inexpensive method of financing for the owner of a small business. The venture capitalist firm “buys” an ownership interest in the business in exchange for its investment. This percentage of ownership varies, of course, and depends upon the amount of money provided, the success and worth of the business, and the anticipated investment return. It can range from 10 percent in the case of an established, profitable company to as much as 80 to 90 percent for new or financially troubled firms.

Since venture capital firms invest for long-term capital gains, not for interest income, they invest only in firms they believe can rapidly increase sales and generate substantial profits. Typically, they look to recoup three to five times their investment in five to seven years.

Most venture capital firms are interested in projects requiring an investment of \$250,000 to \$1,500,000. Projects requiring under \$250,000 are of limited interest because of the high cost of investigation and administration; however, some venture capital firms will consider smaller proposals, if the investment is intriguing enough.

Investment and securities brokerage firms can supply names of venture capitalists and individuals who are seeking investment opportunities.

Selling Capital Stock

This device is extremely significant for raising capital. New businesses can sell common or preferred stock by utilizing the services of investment bankers. Preferred stockholders have priority in receiving dividends, but have no voting rights. Only the common stockholders have voting powers. The entrepreneur can still own the majority of common stock outstanding. This will prevent any control problems.

The investment banker sells the stock to customers who are probably unknown to the business owner. A detailed study of the plans of the firm is contained in a prospectus, which the investment banker will prepare. The investment banker will charge a fee for these services. The charge will be higher if the banker guarantees the sale of the full amount of the stock issue, and less if the stock is sold on a “best efforts” basis. This fee is chargeable to the organization’s expense and can be amortized over 5 to 10 years.

Equities can be sold by small companies, with the aid of an attorney. Equities are often preferable to loans when dealing with relatives and friends. Contact an attorney if interested in this alternate method for raising capital.

Federal Lending Programs

U.S. Small Business Administration

The U.S. SBA was created by Congress in 1953 to help America’s entrepreneurs form successful small enterprises. Today, the U.S. SBA program offices, in every state, offer financing, training, and advocacy for small firms.

The U.S. SBA is authorized to guarantee loans to small businesses that cannot obtain financing on reasonable terms through normal lending channels. The U.S. SBA basic guaranty program is used to fund both short-term and long-term needs of small businesses.

The program is designed to promote small business formation and growth by guaranteeing loans to qualified firms. Loans are available for many business purposes, such as real estate, expansion, equipment, working capital, or inventory. The guaranty for loans of \$150,000 or less is 85 percent. For loans greater than \$150,000, the SBA guaranty is 75 percent. The interest rate generally cannot exceed 2.75 percentage points over the prime-lending rate. Maturities are up to seven years for working capital and up to 25 years for fixed assets. The U.S. SBA charges a nominal guaranty fee to lenders, which is passed on to borrowers.

Most lenders are familiar with U.S. SBA loan programs, so interested applicants should contact their local lender for further information and assistance in the U.S. SBA loan application process. Information on U.S. SBA loan programs, as well as the management counseling and training services offered by the U.S. SBA, is also available from local U.S. SBA offices. See U.S. Small Business Administration in the Appendix.

The following synopses outline U.S. SBA loans:

- **7(a) Loan Guaranty:** The 7(a) Loan Guaranty Program is one of the U.S. SBA's primary lending programs. It provides loans of up to \$2 million to small businesses unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that provide loans guaranteed by the U.S. SBA. The U.S. SBA has no funds for direct lending or grants.
- **CAIP:** The Community Adjustment and Investment Program was created to help communities that suffered job losses due to changing trade patterns following the North American Free Trade Agreement. The total loan amount available under this program is \$1 million with a 75 percent guaranty. Loans approved under CAIP will have the guaranty fee, usually paid by the borrower, waived. This can amount to about 3 percent of the guaranteed amount. The program is currently available in the counties of Halifax, Henry, Mecklenburg, Patrick, and Martinsville city. The list of eligible areas is available at www.nadbank-caip.org.
- **CAPLines:** This umbrella program helps small businesses meet their short-term and cyclical working-capital needs with five separate programs.
- **Certified Development Company (504 Loan) Program:** This program, commonly referred to as the 504 program, makes long-term loans available for purchasing land, buildings, machinery, and equipment, in addition to modernizing or renovating existing facilities and sites. The maximum amount of SBA's participation in a single project is \$1.5 million but can increase to \$2 million for projects that meet one of 14 public policy goals and \$4 million for manufacturers. There is no limit on the project size but SBA may not finance more than 40 percent of a project. See U.S. SBA, Certified Development Companies in the Appendix.
- **Export Working Capital:** This program is designed to provide short-term working capital to exporters through a combined effort of the U.S. SBA and the Export-Import Bank and offers 90 percent guaranty by the U.S. SBA up to \$1.5 million.
- **Microloan Program:** This program works through several intermediaries to provide small loans from as little as \$100 up to \$35,000. See U.S. SBA, Microloan Lenders in the Appendix.
- **SBAEXPRESS:** This is a simplified loan process where approved lenders have delegated approval authority in exchange for a reduced loan guaranty of only 50 percent. Loans may be for up to \$350,000 under the general program and \$250,000 for exporting. ExportExpress loans receive a higher guaranty. This program also allows for revolving lines of credit for up to 7 years. A list of approved lenders is available at www.sba.gov/va.

Community Business Partnership Micro-Lending Program

Using loan funds provided through the U.S. Department of Housing and Urban Development and administered through the Fairfax County Department of Housing and Community Development, Community Business Partnership's Micro-Lending Program can make a direct loan up to \$25,000 to qualified business owners in Fairfax County. Designed specifically to assist low-to-moderate income entrepreneurs, this program offers access to capital to those individuals who do not have access to traditional sources of lending. See Community Business Partnership in the Appendix.

Rural Development

This agency of the U.S. Department of Agriculture (USDA) provides direct financial assistance and loan guarantees to rural communities, and rural non-farm citizens. Rural Development (RD) makes loans to finance dwellings, community facilities such as water or sewage systems, and non-farm businesses. The Business and Industrial Loan Program was established to create and maintain employment opportunities in rural areas (towns and cities with populations of 50,000 or less with preference given to communities of 25,000 or less). Loans by commercial lenders to individuals or companies are backed by RD's guarantee for repayment (up to 90 percent) of losses, limiting the risk taken by lenders. Applicants or other interested persons may visit one of the county offices located throughout the state, or may contact the main office in Richmond. See U.S. Department of Agriculture in the Appendix.

Farm Credit, Agricultural Credit Associations

Farm Credit, Agricultural Credit Associations (ACAs) are a part of a nationwide network of borrower-owned lending institutions and specialized service organizations. The ACAs are governed by boards of directors elected by member-borrowers/stockholders. Congress created the Farm Credit System more than 75 years ago to provide American agriculture with a dependable source of credit and closely related services. Typical services include operating and real estate loans with fixed, adjustable, or variable rates; rural home mortgages; and credit-related life insurance. Short, intermediate, and long-term loans are available to eligible farmers, rural residents, and persons furnishing services that are directly related to the farmers' needs. Loans may be made for any agricultural purpose. Agricultural purposes include the following:

- To purchase or improve farm real estate
- To purchase livestock, equipment, or supplies
- To pay farm operating expenses
- To refinance any of the preceding indebtedness

Loans are made for the purpose of buying, building, and remodeling rural residences, and for refinancing existing indebtedness on such residences. Also, Farm Credit lends to farm-related businesses for necessary sites, capital structures, equipment, and initial working capital for such business services. Applicants may call or visit the offices serving their county. A list of the Farm Credit offices, Agricultural Credit Associations, is in the Appendix.

Farm Service Agency Loans

The Farm Service Agency (FSA) operates a commodity loan program that provides farmers with working capital for up to eleven months while storing certain commodities on the farm or in an approved warehouse. Loans are made for farm-stored commodities based on 100 percent of the stored quantity. All loans of this type are non-recourse with adjustable interest rates. Applications are available from the county FSA offices located throughout Virginia. A list of Farm Service Agency offices may be found in the Appendix under U.S. Department of Agriculture.

State Financing Programs

Virginia Small Business Financing Authority

The Virginia Department of Business Assistance Financial Services Division administers the programs of the Virginia Small Business Financing Authority (VSBFA). VSBFA is a statewide conduit issuer of industrial development bonds and the vehicle through which the Department of Business Assistance provides financial assistance to Virginia businesses for the promotion of economic development in the Commonwealth. Experienced professionals work with businesses, bankers, other state agencies, and economic developers across the state in providing direct funding and credit enhancements through a variety of financing programs for the benefit of eligible new and expanding businesses.

VSBFA currently offers the following financing programs:

- **Economic Development Loan Fund:** Businesses and individuals engaged in technology, biotechnology, tourism, engine and vehicle manufacturing for the professional motor sports industry, wineries and vineyards, basic industry, manufacturing, and agribusiness qualify for this loan. Eligible borrowers also include businesses or entities that provide for a locality's economic and "quality of life" development, industrial development authorities and other authorities empowered by the *Code of Virginia* to make loans for economic development purposes.

Borrowers must have a minimum of 10 percent cash equity in the project. Borrowers must also demonstrate that the creation or retention of Virginia jobs is commensurate with the amount of VSBFA funding and that they are unable to obtain the requested financing elsewhere. A minimum wage of \$8 per hour is required. Businesses must meet the VSBFA definition of a small business: a business with \$10 million or less in annual revenues over each of the last three years, or with a net worth of \$2 million or less, or with fewer than 250 employees.

Purchases of fixed assets such as machinery and equipment, real estate, leasehold improvements, and permanent working capital (some restrictions) are eligible uses.

This program offers loans up to \$1,000,000 or 40 percent of the project, whichever is less and maturities up to 5 years with amortizations based on the life of the assets financed or borrower's ability to repay. Rates are market-based and set based on credit risk factors. There is a \$500 application fee.

- **VSBFA DIRECT:** Businesses and individuals engaged in technology, biotechnology, tourism, engine and vehicle manufacturing for the professional motor sports industry, wineries and vineyards, basic industry, manufacturing, and agribusiness qualify for this loan. Eligible borrowers also include businesses or entities that provide for a locality's economic and "quality of life" development, industrial development authorities and other authorities empowered by the *Code of Virginia* to make loans for economic development purposes.

Borrowers must have a minimum of 25 percent cash equity in the project. Borrowers must also create at least two full-time jobs for every \$100,000 received under this loan program. Businesses must pay a minimum wage of \$8 per hour and be unable to obtain the requested financing elsewhere. Businesses must meet the VSBFA definition of a small business: a business with \$10 million or less in annual revenues over each of the last three years, or with a net worth of \$2 million or less, or with fewer than 250 employees.

These funds may be used to purchase fixed assets such as machinery and equipment, real estate, leasehold improvements, and permanent working capital. Loans are offered in amounts up to \$500,000 or 75 percent of a project, whichever is less. Loan maturities vary with the purpose.

Loans for fixed assets have a 5-year maturity with amortizations based on the life of the assets financed or borrower's ability to repay. The maximum amount of allowable funding for permanent working capital is \$250,000 and the maximum maturity is 36 months. Rates are market-based and set based on credit risk factors. There is a \$500 application fee and a 2 percent commitment fee.

- **Child Day Care Financing Program:** Eligible borrowers are regulated child day care centers licensed by the Virginia Department of Social Services (DSS) or filed as religious-exempt with DSS. Family Home Providers, which are licensed by the Virginia DSS, registered through the Voluntary Registration Program, approved through a local DSS, part of a Licensed Family Day Care System, or participating in the USDA Food Program are also eligible borrowers.

These funds may be used for quality enhancement projects or to maintain childcare standards such as renovations or repairs necessary to comply with health and safety standards required by DSS, playground equipment and learning aids, etc.

Loans are offered in amounts up to \$50,000 for Child Day Centers and up to \$5,000 for Family Home Providers. This program offers low interest rates and terms that last up to 5 years. A \$100 application fee applies to centers, while home providers are required to pay a \$15 application fee.

- **Environmental Compliance Assistance Fund:** These loans are provided to Virginia businesses that employ 100 people or less and qualify as a small business concern as defined in the *Federal Small Business Act* (15 U.S.C. § 631 et seq), as amended.

Eligible loan uses include the purchase of equipment to comply with the *Federal Clean Air Act*, equipment to implement voluntary pollution prevention measures, or equipment or structures to implement voluntary agricultural best management practices.

Loans are offered in amounts up to \$100,000 for a maximum of 10 years. This program offers low interest rates and flexible terms. A \$30 application fee applies.

VSBA currently offers the following indirect financing programs:

- **Loan Guaranty Program:** Eligible borrowers are Virginia businesses that meet the VSBA definition of small business and are unable to obtain the requested financing without the VSBA guaranty. VSBA defines a small business as one with \$10 million or less in annual revenues over each of the last three years, or with a net worth of \$2 million or less, or with fewer than 250 employees.

These loans can be used for short- and intermediate-term financing needs such as lines of credit and fixed asset purchases such as machinery, equipment, furniture, fixtures and other general-purpose business needs.

Under this program, VSBA will guarantee up to \$500,000 or 75 percent, whichever is less, of a bank loan. An application fee of \$200 and a guaranty fee of 1½ percent of the guaranteed loan amount apply. Maturities for lines of credit are one year or less. The maximum term for a borrower to be in the program is 3 years.

- **Virginia Capital Access Program:** Any business that is authorized to conduct business in Virginia and is unable to obtain the requested financing without the participation of the VSBFA is eligible for these loans.

Eligible loan uses include short- and long-term financing needs such as lines of credit and fixed asset purchases such as machinery, equipment, furniture, fixtures and other general-purpose business needs.

Participating VCAP banks may enroll up to \$250,000 of a loan or line of credit. Loans can be enrolled for up to 10 years; lines for up to one year. Enrollment premiums range from 3-7 percent.

- **Virginia Tobacco Commission Southside Capital Access Program (TCAP):** Any business which operates, or plans to operate, within the Tobacco Regions of Southside Virginia qualifies as an eligible borrower. The counties of Amelia, Appomattox, Bedford, Brunswick, Buckingham, Campbell, Charlotte, Cumberland, Dinwiddie, Franklin, Greensville, Halifax, Henry, Lunenburg, Mecklenburg, Nottoway, Patrick, Pittsylvania, Prince Edward, Sussex, and cities of Bedford, Danville, Emporia, and Martinsville make up this area.

Businesses must be unable to obtain the financing without the participation of the VSBFA.

Eligible loan uses are short- and long-term financing needs, such as lines of credit and fixed asset purchases such as machinery, equipment, furniture, fixtures and other general-purpose business needs.

Participating TCAP banks may enroll up to \$250,000 of a loan or line. Loans can be enrolled for up to 10 years and lines can be enrolled for up to one year. Enrollment premiums range from 3-7 percent.

VSBA currently offers the following conduit issuers for bonds:

- **Industrial Development Revenue Bonds (IDBs):** New or expanding manufacturing facilities and exempt facilities such as solid-waste disposal facilities located in Virginia qualify as eligible borrowers for these loans. Borrowers must be Virginia businesses that meet the VSBA definition of a small business: a business with \$10 million or less in annual revenues over each of the last three years, or with a net worth of \$2 million or less, or with fewer than 250 employees.

Eligible uses include construction or acquisition of land and buildings and the purchase of other capital assets including equipment for manufacturing and exempt facilities. There is a \$10 million cap on manufacturing facilities bonds.

There is not a cap on exempt facilities bonds. Due to issuance costs, bonds are generally greater than \$1 million. Lenders set the pricing and structure. Interest rates and terms are generally favorable due to the tax-exempt status on the earnings to the bond purchasers. Manufacturers may also use IDBs to lease facilities and equipment.

- **501c3 Tax Exempt Bonds:** Eligible borrowers are organizations that have been certified as 501c3 corporations by the Internal Revenue Service.

Eligible uses include the construction or acquisition of land and buildings and the purchase of other capital assets including equipment.

There is no dollar cap on 501c3 facilities bonds. Lenders set the pricing and structure. Interest rates and terms are generally favorable due to the tax-exempt status on the earnings to the bond purchasers.

- **Umbrella Bond Program:** This program is a placement option available for tax-exempt bonds issued by VSBFA that minimizes closing and issuance costs, thereby, lowering the project size threshold for bond financing.

See Virginia Small Business Financing Authority in the Appendix.

Virginia's Center for Innovative Technology

Virginia's Center for Innovative Technology (CIT) is a state-chartered non-profit corporation that accelerates Virginia's next generation of technology and technology companies.

CIT provides the only statewide suite of programs and services for technology researchers, technology entrepreneurs, and small technology businesses in all regions of the Commonwealth. Business assistance programs include:

- **Federal Funding Assistance Program**

Federal dollars play a substantial role in research and development funding for small businesses in Virginia, offering both a non-diluting source of capital as well as a validation for early-stage innovation. CIT helps Virginia's small technology companies compete more effectively for Small Business Innovative Research/Small Business Technology Transfer and Advanced Technology Program awards and other government contracts.

CIT operates a Procurement Technical Assistance Center (PTAC) that helps central Virginia businesses, including women-owned, and small and disadvantaged businesses, gain access to federal, state, and local government contracts. CIT's PTAC provides direct counseling and support to clients, leads for bid opportunities, and training and networking opportunities for selling to government.

- **Capital Access Program**

To help close Virginia's "funding gap" for pre-seed and seed-stage technology companies, CIT launched its Growth Acceleration Program, investing up to \$100,000 in early-stage technology companies with a high-potential for technology commercialization, rapid growth, and downstream private equity financing.

CIT's experts consult with emerging technology companies to assist them in evaluating their prospects for debt and equity funding with institutional and angel investors. With a "funding roadmap" established, CIT guides qualifying, high-potential companies to take advantage of CIT's strategic relationships with a variety of early-stage investment organizations and individuals.

- **InnovationAvenue.com**

Innovation Avenue is CIT's online guide for Virginia's Technology entrepreneurs. The site offers expert advice from a virtual founding team, answers to frequently asked questions, a glossary of need-to-know terms, and links to essential resources.

■ Regional Technology Business Support Services

CIT's nationally recognized regional operations outreach programs serve Virginia's technology businesses with 500 or fewer employees. Building on 18 years of experience, regional teams provide a full range of confidential, specialized services for technology application, process, and product development and commercialization. Services include: access to scientific, technical, business and market information; assistance with technology transfer from universities and federal labs; links to prototyping and testing equipment and expertise.

■ e-Business Education

CIT offers hands-on e-business educational forums and e-commerce solutions for Virginia businesses through the Virginia Electronic Commerce Technology Center and other community resources. CIT sponsors the creation of e-business villages—regional associations of businesses and organizations that share an interest in promoting economic progress of their locales through the use of e-commerce techniques and technologies.

For additional information visit: www.cit.org and www.innovationavenue.com. See Virginia's Center for Innovative Technology in the Appendix.

Virginia Main Street Program

In 1985, Virginia established a statewide Main Street program using the National Main Street Center's successful Main Street Approach to help localities revitalize the economic vitality of downtown commercial districts. Main Street is a comprehensive, incremental approach to revitalization that uses local resources and initiative to help communities develop strategies to stimulate long-term economic growth in downtown.

Recognizing that Virginia communities interested in revitalization have a variety of situations and needs, Virginia Main Street offers three options for participation.

- **Designated Main Street Community:** For communities with a population of 75,000 and under that meet certain eligibility criteria and wish to use the Main Street Approach in a traditional downtown setting. This option requires a high degree of commitment and readiness. Communities are competitively selected every three to four years.
- **Start-Up Community:** For communities that want to build capacity and prepare for the Main Street designation application process. Communities must meet certain eligibility criteria and complete a brief application.
- **Affiliate Community:** Communities of any size or readiness may participate as an Affiliate and may join with completion of an application.

The program offers: training, from the basics of Main Street to advanced downtown development topics (Affiliate, Start-Up, and Designated Communities); on-site technical assistance (Start-Up and Designated Communities); access to state and national experts on topics such as business development (Designated Communities); customized design assistance to downtown property and business owners and ongoing public relations (Designated Communities).

Each of the downtown districts of designated Virginia Main Street communities has professional management that can provide businesses with access to the state program resources as well as assist with promotion, marketing, and other business development needs.

For more information on the state program and a listing and map of Virginia Main Street communities, visit the website at www.dhcd.virginia.gov. See Department of Housing and Community Development in the Appendix.

Enterprise Zone Program

Administered by the Department of Housing and Community Development (DHCD), the Virginia Enterprise Zone Program was created in 1982 by the Enterprise Zone Act to stimulate local economic growth and neighborhood revitalization.

An enterprise zone is designated by the Governor as an economically distressed area of a county, city, or town. In order to support business expansion and development, enterprise zones are offered a package of state and local incentives for a period of 20 years.

Businesses, large and small, new and expanding, manufacturing and retail, may participate in the program, provided that their business is located within an enterprise zone and certain qualification requirements are met. The following state incentives are available to qualified businesses:

- Ten-year general income tax credit against a business's state tax liability in an amount up to 80 percent in year one and 60 percent in years two through ten. For businesses investing \$15 million and creating 50 jobs the amount of credit is subject to negotiation between the business and DHCD.
- Real property improvement tax credit equal to an amount of up to 30 percent of qualified improvements to real property with a maximum amount of up to \$125,000 within a five-year period. For rehabilitation projects the business must be an owner-occupant of the property or a tenant making leasehold improvements. Tax credits greater than tax liability are refunded.
- Investment tax credit against a business's state tax liability for businesses investing \$100 million and creating 200 jobs. The percentage amount is negotiable and could be worth up to five percent of the investment.
- Job grants of up to \$100,000 per year for full-time, permanent employment positions created by new or expanding businesses. Grant amounts equal \$1,000 for zone residents hired and \$500 for any other positions for each year of a three-year period.

For more information on the state program and a map and listing of enterprise zones, visit the website at www.dhcd.virginia.gov. See Department of Housing and Community Development in the Appendix.

Virginia Enterprise Initiative

Administered by the Department of Housing and Community Development, the Virginia Enterprise Initiative (VEI) Program is a state program designed to help entrepreneurs that traditionally have not had access to technical assistance and capital to start a small business. Committed to providing resources to organizations that assist entrepreneurs and micro/small businesses (fewer than 5 employees), VEI provides grants to organizations across the state,

which are used to cover program operating costs, administration, and loan loss reserve. VEI sites are competitively selected every two years, and grants have ranged between \$50,000 and \$70,000.

In turn, each VEI-funded site offers business skills training, technical assistance, microloans, and follow-up assistance to its clients, with a focus on low-income and minority individuals and women.

For more information on the state program, and a map and listing of VEI-funded sites, visit the website at www.dhcd.virginia.gov. See Department of Housing and Community Development in the Appendix.

